

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES
AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL
AREA DE ARCHIVO DIGITAL

MUNICIPIO DE BARCELONETA
AUDITORIA 2004-2005
30 DE JUNIO DE 2005

MUNICIPALITY OF BARCELONETA, PUERTO RICO
SINGLE AUDIT REPORT
JUNE 30, 2005
(INDEPENDENT AUDITOR'S REPORT)

Juan Feliciano Charneco * Certified Public Accountant

**MUNICIPALITY OF BARCELONETA, PUERTO RICO
SINGLE AUDIT REPORT
JUNE 30, 2005**

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MUNICIPALITY OF BARCELONETA MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Municipality of Barceloneta, we offer the reader of the Municipality's financial statements this narrative overview of the financial activities of the Municipality for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with the Municipality's financial statements.

Fiscal year 2004-2005 operations sustain the Municipality's track of solvency and sound fiscal condition. The Governmental Wide financial statement also supports our statement. This condition is achieved in a time of economy constrains and low revenues growth rates.

FINANCIAL HIGHLIGHTS

- The assets of the Municipality Government exceeded its liabilities at the close of the current fiscal year by \$27,110,045 (net assets).
- The adjusted actual of the General Fund operations resulted in a favorable variance of \$3,548,094 as compared to the revised budget.
- As June 30, 2005 the Municipality's General Fund (the primary operating fund) reported a fund balance of \$2,025,898 and decrease of \$42,966 in comparison with the prior year.
- Loans principal payments were \$1,651,883 during fiscal year 2004-05.

New Requirements for the Financial Reporting

The new approach on the preparation of the Municipality's financial statements emphasizes on a government wide (consolidated) view of its financial operations. Nevertheless major individual funds are presented and evaluated in all of its details. Simultaneous implementation of both of these perspectives allows user to address relevant questions about municipality's performance and provides a basis for comparisons and evaluation of services quality.

Because of the implementation of these new reporting standards, much of the information will not be easily comparable with prior year data. However, in future years, comparisons will be more meaningful and will provide a better understanding of the municipality's financial position and results of its operations.

MUNICIPALITY OF BARCELONETA MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Statements Components

The basic financial statement consist of government wide financial statements, the major individual funds financial statement, and notes to the financial statements that provides more details.

The Statement of Net Assets reports information of the municipality as a whole. Increase or decrease of net assets may serve as an indicator of whether municipality's financial position is improving or deteriorating. Those statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most privet sector companies. Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The statement of Activities is focused on both the gross and net cost of various activities, which are supported by the Municipality's property tax, municipal licenses tax and other revenues. It is intended to summarize and simplify the user's analysis of the costs of governmental services. The governmental activities reflect basic services, including police, public works, solid waste disposal, community services, and general administration. Property tax, municipal license tax, state and federal appropriations finance most of the services.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Major Governmental Funds presentation provides detailed information about the most significant funds, not the Municipality as a whole. The Municipality uses fund accounting to ensure and demonstrate compliance with financial related legal requirements. The Municipality's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The Governmental funds statement provides a detailed short-term view of the Municipality general governmental operations and the basic services it provides. Governmental funds information help you determine whether there are more or fewer financial resources that can be spend in the near future to finance Municipality's programs. We describe the relationship between governmental activities and governmental funds in reconciliation besides the fund financial statements.

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statement.

**MUNICIPALITY OF BARCELONETA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Infrastructure Assets

The Municipality implemented the major model portions of GASB statement 34 during the current fiscal year. Historically, the governmental larger group of assets have not been reported nor depreciated in governmental financial statement. The new statement required that this asset be valued and reported within the Governmental column of the Governmental Wide Statement. Additionally, the government must elect to either depreciate these assets over their estimated useful life or develop a system of assets management designated to maintain the service delivered potentially to near perpetuity. If the government develops the assets managements system, which periodically, by category, measures and demonstrate its maintenance system, which periodically, by category, measures and demonstrate its maintenance of locally established level of services standards, the government may record its cost of maintenance in lieu of depreciation. The information about the condition and maintenance of condition of the government infrastructure assets should assist financial statements users in evaluating a local government and its performance over time.

Government-Wide Statement

Statement of Net Assets

The Statement of Net Assets reports information of the municipality as a whole. Increase or decrease of net assets may serve as an indicator of whether municipality's financial position is improving or deteriorating. In the case of the Municipality primary government assets exceeded liabilities by \$27,110,045 millions at the close of the recent fiscal year. The following reflects the condensed Statement of Net Assets of the Primary Government.

**Statement of Net Assets
As of June 30, 2005 and 2004**

	2005	2004
Current and other assets	\$26,233,979	\$ 29,638,093
Capital assets	45,694,180	29,269,387
Total assets	\$71,928,159	\$ 58,907,480
Current and other liabilities	18,406,293	17,525,614
Long-term liabilities	26,411,821	29,173,625
Total liabilities	44,818,114	46,699,239
Net assets:		
Invested in capital assets, net related debt	19,354,410	11,779,734
Restricted	8,229,017	13,291,067
Unrestricted	(473,382)	(12,862,560)
Total net assets	\$27,110,045	\$ 12,208,241

The principal increase of the net assets was due mainly to the inclusion of the capital assets of the municipality. Such amount will increase as the infrastructure assets are identified and included in the financial statements.

**MUNICIPALITY OF BARCELONETA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Statement of Activities

The following reflects the condensed Statement of Activities of the Primary Government:

For the year ended June 30, 2005 and 2004

	2005	2004
General revenue	\$25,956,907	\$ 23,555,602
Program revenue	13,000,552	11,040,607
Total revenue	38,957,459	34,596,209
Expenses		
Governmental activities	(39,035,494)	(32,693,665)
Change in net assets	\$ (78,035)	\$ 1,902,544

The following reflects the condensed Balance Sheet of the Governmental Funds:

**Governmental Funds
Balance Sheet
June 30, 2005 and 2004**

	2005	2004
Assets:		
Cash	\$ 15,475,895	\$ 21,115,330
Restricted Cash	3,986,214	3,207,172
Accounts Receivable	8,595,727	6,846,492
Total Assets	\$28,057,836	\$ 31,168,994
Liabilities and Fund Balance		
Liabilities:		
Accounts payable and due to	\$6,396,837	\$ 5,251,349
Deferred Revenue and Volume of Business Tax	11,436,084	10,564,712
Total Liabilities	17,832,921	15,816,061
Fund Balances	10,224,915	15,352,933
Total liabilities and Fund Balances	\$ 28,057,836	\$ 31,168,994

The most significant changes in this statement were as follows:

- Noticeably, the fund balances are mostly in cash and cash restricted.
- The increase in liabilities is due mainly to the accounts payable of special and capital projects funds. The decrease in assets is related to increase in construction in progress.

**MUNICIPALITY OF BARCELONETA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended June 30, 2005 and 2004**

	2005	2004
Revenues:		
Property taxes	\$ 8,673,165	\$ 7,907,885
Volume of business tax	11,236,062	10,347,944
Intergovernmental revenue	5,128,411	5,929,602
Federal grants	9,026,773	6,551,068
Other	3,262,304	6,561,801
Total Revenues	\$ 37,326,715	\$ 37,298,300
Liabilities and Fund Balance		
Expenditures:		
General Government	\$ 12,522,655	\$ 14,472,605
Public works	7,238,286	6,096,203
Public safety	1,588,237	1,427,557
Health	1,148,888	1,013,782
Capital projects	11,140,188	4,109,882
Culture and recreation	2,580,509	2,058,426
Bonds, notes and interests	2,929,601	2,570,538
Education and training	5,990,471	4,387,659
Other expenditures	1,541,052	991,154
Total Expenditures	\$ 46,679,887	\$ 37,121,806
Excess of revenues (expenditures)		
Over expenditures (revenues)	\$ (9,353,172)	\$ 176,494
Other financing sources, debt issuance	39,594	8,613,652
Special items – sale of lands	4,185,560	4,097,659
Fund balance, beginning	15,352,933	6,562,787
Fund Balance, ending	\$ 10,224,915	\$ 15,352,933

The most significant changes of this statement is as follows:

- The larger increase in revenues is related to intergovernmental revenue for the amount of \$4.2 for sale of lands.
- The most significant changes in the expenditures were an increase in capital project for approximately \$11 millions related with capital outlays.



Gobierno Municipal

BARCELONETA, PUERTO RICO

Departamento de Finanzas

MUNICIPALITY OF BARCELONETA MANAGEMENT'S DISCUSSION AND ANALYSIS

Economic Factors and Next Year Budget

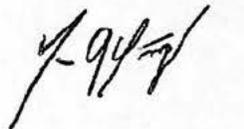
The Municipality is a political legal entity with full legislative and administrative powers in every area of municipal government, with perpetual existence and legal personality, separate and independent from the central governmental of Puerto Rico. The Municipal Government comprises the executive and legislative branches. The Mayor exercises the executive power and the legislative power by the Municipal Legislature, which has 16 members.

The Municipality provides a full range of services including public works, education Public safety, public housing, health, community development, culture, recreation and other administrative services. The Municipality's principal sources of revenues are property taxes, municipal license taxes, contributions by the state government and federal grants.

The Municipality's Budget for fiscal year 2004-2005 for \$3,548,094 is over last fiscal year (2004-2005).

Contacting the Municipality's Financial Management

The Municipality's financial statements are designed to present users with general overview of the Municipality's finances. If you have questions about the report or need additional financial information, contact the Municipality's Director of Finance.



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Finance Director

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INDEPENDENT AUDITOR'S REPORT

Mayor of the Municipality of Barceloneta
Barceloneta, Puerto Rico

I have audited the accompanying financial statements of the Governmental Activities, each major fund and the remaining fund information of the **Municipality of Barceloneta**, Puerto Rico, as of and for the year ended June 30, 2005, which collectively comprise the **Municipality of Barceloneta** basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the Municipality's management. My responsibility is to express opinions on these financial statements based on my audit.

I have conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, of each major fund and the aggregate remaining fund information and governmental activities of the **Municipality of Barceloneta**, Puerto Rico, as of June 30, 2005, and the respective changes in financial position, thereof the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued my report dated September 26, 2005 on my consideration of **Municipality of Barceloneta**, Puerto Rico internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. The additional report is not an integral part of a governmental auditing standard audit in considering the results of the audit the separate report should be read in conjunction with the auditor's report considering the results of our audit.

My audit was performed for the purpose of forming an opinion on the Governmental Activities financial statements of **Municipality of Barceloneta**, Puerto Rico taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-profit Organizations, and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and in my opinion, is fairly stated in all material respects, in relation the by general purpose financial statement a taken as whole.

As described in Note 1, on July 1, 2003, the **Municipality** implemented a new financial reporting model required by GASB Statement No. 34, (GASB No. 34), *Basic Financial Statements – And Management's Discussion and analysis-for State and Local Governments*. In conjunction with the adoption of BASB No. 34, the Municipality has also adopted the following pronouncements: (1) BASB Statement No. 37-*Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus*, (2) GASB Statement No.38-*Certain Financial Statement Note Disclosures*, and (3) GASB Interpretation No. 6-*Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

The Management's Discussion and Analysis 1 through 6, are not a required part of the basic financial statements but are supplementary information required by the Accounting Principles Generally Accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audited the information and express no opinion on it.

San Juan, Puerto Rico
September 26, 2005

The stamp number
was affixed to the
original of this report

2108518

Juan A. Feliciano
CPA JUAN A. FELICIANO CHARNECO
License No. 1263
Expires December 1, 2007



MUNICIPALITY OF BARCELONETA, PUERTO RICO
STATEMENT OF NET ASSETS
JUNE 30, 2005

ASSETS	Governmental Activities
Cash and investments	\$ 15,475,895
Cash with fiscal agent	3,986,214
Accounts receivable	416,991
Accounts receivable federal government	1,706,990
Accounts receivable	4,647,889
Capital Assets	45,694,180
Total assets	\$ 71,928,159
LIABILITIES AND FUND EQUITY	
Liabilities:	
Accounts payable and accrued liabilities	\$ 3,311,777
Due to government entity	1,150,521
Deferred revenue	11,436,084
Noncurrent liabilities:	
Due within one year	2,507,911
Due in more than one year	26,411,821
Total liabilities	44,818,114
NET ASSETS	
Invested in capital assets, net of related debt	19,354,410
Restricted for:	
Reserve for debt service	3,886,214
Special revenue fund	218,457
Capital project fund	4,124,346
Unrestricted (deficit)	(473,382)
Total Net Assets	27,110,045
Total Liabilities and Net Assets	\$ 71,928,159

See notes to financial statement

MUNICIPALITY OF BARCELONETA, PUERTO RICO
STATEMENTS OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Functions/Programs	Expenses	Program Revenues		Net (expense) revenue and change in Net Assets in Net Assets Governmental Activities	
		Charges for Services	Capital Grants and Contributions		Operating Grants and Contributions
<u>EXPENDITURES:</u>					
General government	\$ 11,334,040	\$ (119,180)	\$ (853,787)	\$ (509,204)	\$ 9,851,869
Public work	7,968,298	-	-	-	7,968,298
Public safety	1,679,211	-	-	-	1,679,211
Capital project	5,260,792	-	(4,311,597)	(949,195)	-
Health	1,232,348	-	-	-	1,232,348
Culture and recreation	2,704,684	-	-	-	2,704,684
Education and training	5,990,471	-	-	(5,990,471)	-
Other expenditures	1,541,052	-	-	(267,118)	1,273,934
Interest on long-term debt	1,324,598	-	-	-	1,324,598
Total governmental activities	<u>\$ 39,035,494</u>	<u>\$ (119,180)</u>	<u>\$ (5,165,384)</u>	<u>\$ (7,715,988)</u>	<u>\$ 26,034,942</u>
<u>GENERAL REVENUES</u>					
Property taxes					\$ 8,673,165
Municipal licenses tax					11,236,062
Licenses, permits and fines					588,143
Intergovernmental revenues					2,292,220
Interests income					337,305
Other Revenues					2,217,676
Special item - Gain on sale of land					612,336
Total general revenues					<u>25,956,907</u>
Changes in net assets					(78,035)
Net assets at beginning of year					12,141,481
Prior period adjustment					15,046,599
Net assets at end of year					<u>\$ 27,110,045</u>

See notes to financial statements.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2005

<u>ASSETS</u>	General Fund	Bond Issue Fund	HUD Programs	Head Start Programs	Debt Service Fund	Other Funds	Total Governmental Funds
Cash and investments	\$ 9,193,727	\$ 4,047,632	\$ 11,820	\$ 405,751	\$ -	\$ 1,916,965	\$ 15,575,895
Cash with fiscal agent and other	-	-	-	-	3,886,214	-	3,886,214
Accounts receivable	144,633	-	-	-	-	272,358	416,991
Due from other funds	1,823,857	-	-	-	-	-	1,823,857
Accounts receivable federal government	-	-	240,738	1,466,252	-	-	1,706,990
Other receivable	4,544,648	-	306	22,253	-	80,682	4,647,889
Total assets and other debits	<u>\$ 15,706,865</u>	<u>\$ 4,047,632</u>	<u>\$ 252,864</u>	<u>\$ 1,894,256</u>	<u>\$ 3,886,214</u>	<u>\$ 2,270,005</u>	<u>\$ 28,057,836</u>
 <u>LIABILITIES AND FUND BALANCES</u>							
Liabilities:							
Accounts payable and accrued liabilities	\$ 1,013,680	\$ 88,436	\$ 202,989	\$ 985,711	\$ -	\$ 1,020,961	\$ 3,311,777
Due to special general fund and other funds	80,682	-	35,336	690,274	-	1,098,247	1,904,539
Due to government entity	1,150,521	-	-	-	-	-	1,150,521
Deferred revenue - (volume business tax)	11,436,084	-	-	-	-	-	11,436,084
Total liabilities	<u>13,680,967</u>	<u>88,436</u>	<u>238,325</u>	<u>1,675,985</u>	<u>-</u>	<u>2,119,208</u>	<u>17,802,921</u>
Fund balances							
Reserve for debt services	48,930	-	-	-	3,886,214	-	3,935,144
Encumbrances	1,976,968	-	-	-	-	-	1,976,968
General Fund	-	-	-	-	-	-	-
Special revenue fund	-	-	186	218,271	-	-	218,457
Capital Project fund	-	3,959,196	14,353	-	-	150,797	4,124,346
Total fund balances	<u>2,025,898</u>	<u>3,959,196</u>	<u>14,539</u>	<u>218,271</u>	<u>3,886,214</u>	<u>150,797</u>	<u>10,254,915</u>
Total liabilities and fund balance	<u>\$ 15,706,865</u>	<u>\$ 4,047,632</u>	<u>\$ 252,864</u>	<u>\$ 1,894,256</u>	<u>\$ 3,886,214</u>	<u>\$ 2,270,005</u>	<u>\$ 28,057,836</u>

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds

\$ 45,694,180

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:

Accrued compensated absence
 Health insurance debt
 Bonds payable
 Legal claims

\$ 1,550,765
 894,641
 26,378,303
 15,341
\$ 28,839,050

Total long-term liabilities

28,839,050

Total net assets of governmental activities

\$ 27,110,045

MUNICIPALITY OF BARCELONETA, PUERTO RICO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	General Fund	2005 Bond Issue Fund	HUD Programs	Head Start Programs	Debt Service Fund	Other Funds	Total Governmental Funds
REVENUES							
Property taxes	\$ 6,153,945	\$ -	\$ -	\$ -	\$ 2,519,220	\$ -	\$ 8,673,165
Municipal license tax	11,461,062	-	-	-	-	-	11,461,062
Licenses, permits and fines	588,143	-	-	-	-	-	588,143
Intergovernmental revenues	2,292,220	-	-	-	-	-	2,292,220
Rent of properties	75,741	-	-	-	-	43,439	119,180
Interest income	293,612	-	-	-	43,693	2,836,191	3,173,496
Other revenues	1,992,676	-	-	-	-	-	1,992,676
Federal financial award	-	-	2,329,193	6,188,376	-	509,204	9,026,773
Total revenues	22,857,399	-	2,329,193	6,188,376	2,562,913	3,388,834	\$ 37,326,715
EXPENDITURES:							
Current:							
General government	11,191,962	-	842,032	-	-	488,661	12,522,655
Public works	7,238,286	-	-	-	-	-	7,238,286
Public safety	1,588,237	-	-	-	-	-	1,588,237
Health	1,148,888	-	-	-	-	-	1,148,888
Capital projects	825,948	-	1,475,406	-	-	3,785,386	6,086,740
Culture and recreation	2,580,509	5,053,448	-	-	-	-	7,633,957
Education and training	-	-	-	5,990,471	-	-	5,990,471
Other expenditures	1,541,052	-	-	-	-	-	1,541,052
Debt service:	-	-	-	-	-	-	-
Principal retirement	-	-	-	-	1,651,883	-	1,651,883
Interest and fiscal charges	-	-	-	-	1,277,718	-	1,277,718
Total expenditures	26,114,882	5,053,448	2,317,438	5,990,471	2,929,601	4,274,047	46,679,887
Excess of revenues over (under) expenditures	(3,257,483)	(5,053,448)	11,755	197,905	(366,688)	(885,213)	(9,353,172)
Other financing source (uses):							
Transfer to debt service fund	(807,073)	-	-	-	511,555	295,518	-
Transfer to debt service fund	-	-	-	-	690,046	(690,046)	-
Interest expenditures	-	-	-	-	(39,594)	-	(39,594)
Transfer to other funds	(329,455)	-	-	-	-	329,455	-
Total other financing source (uses)	(1,136,528)	-	-	-	1,162,007	(65,073)	(39,594)
Excess of revenues and other sources over (under) expenditures and other uses	(4,394,011)	(5,053,448)	11,755	197,905	795,319	(950,286)	(9,392,766)
SPECIAL ITEMS:							
Proceeds from Sales of lands	4,451,000	-	-	-	-	-	4,451,000
Net change in fund balances	56,989	(5,053,448)	11,755	197,905	795,319	(950,286)	(4,941,766)
Fund balance June 30, 2004	2,068,864	8,982,644	2,784	32,510	3,090,895	1,101,083	15,278,780
Prior period adjustments	(99,955)	-	-	(12,144)	-	-	(112,099)
Fund balance June 30, 2005	2,025,898	\$ 3,929,196	\$ 14,539	\$ 218,271	\$ 3,886,214	\$ 150,797	10,224,915

Handwritten notes:
99,955
56,989
42,966

Handwritten signature:
Juan A. Feliciano Charneco

See notes to financial statements.

**MUNICIPALITY OF BARCELONETA
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005**

Amounts reported for governmental activities in the statement of activities
are different because: \$ (4,941,766)

Net change in fund balance - total governmental funds
Governmental funds report capital outlays as expenditures. However,
in the statement of activities the cost of those assets is allocated
over their estimated useful lives and reported as depreciation expense.

Expenditures for capital assets	11,140,888	
Less: current year depreciation	<u>(1,179,699)</u>	9,961,189

The issuance of long-term debt (e.g., bonds, leases) provides current
financial resources to governmental funds, while the repayment of the
principal of long-term debt consumes the current financial resources
of governmental funds. Neither transaction, however, has any effect
on net assets.

Principal payments		(1,651,883)
--------------------	--	-------------

The gains on the sales of the land is reported, whereas in the
governmental funds, the proceeds from the sales increase
financial resources. Thus, the change in net assets differs from
change in fund balance by the cost of the land sold. (3,838,664)

Some expenses reported in the statement of activities do not
require the use of current financial resources and, therefore,
are not reported as expenditures in governmental funds. 393,089

Change in net assets of governmental activities \$ (78,035)

See notes to financial statements.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
STATEMENT OF REVENUES, EXPENDITURES AND
BUDGET AND ACTUAL (BUDGET BASIS) GENERAL FUND AND DEBT SERVICE
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Budget Amounts		Adjusted Actual Note 1	Variance Favorable (Unfavorable)
	Original	Final		
REVENUES				
Property taxes	\$ 401,613	\$ 401,613	\$ 401,613	\$ -
Municipal license tax	13,300,000	11,205,380	11,205,595	215
Intergovernmental revenues	2,248,843	2,292,219	2,292,220	1
Licenses, permits and fines	485,960	569,349	588,143	18,794
Rent of properties	40,000	70,921	75,741	4,820
Interest income	220,000	261,143	293,612	32,469
Other revenues	472,000	4,612,539	4,867,768	255,229
Other financial sources	5,192,453	6,495,799	6,495,799	-
Property tax (debt service)	1,741,403	1,741,403	2,562,913	821,510
Total revenues	\$ 24,102,272	\$ 27,650,366	\$ 28,783,404	\$ 1,133,038

EXPENDITURES:

Current:				
General Government	8,355,754	10,829,882	10,773,296	56,586
Public safety	6,506,239	7,266,457	7,238,286	28,171
Public Work	1,641,185	1,589,945	1,588,237	1,708
Health	1,148,888	1,148,888	1,148,888	-
Culture and Recreation	2,769,018	2,593,776	2,580,509	13,267
Capital project	660,000	388,173	617,672	(229,499)
Other	746,713	955,313	1,541,052	(585,739)
Transfer out to debt service	533,072	807,074	807,073	1
Transfer out to other funds	-	329,455	329,455	-
Principal and interest	1,741,403	1,741,403	1,793,974	(52,571)
Total expenditures	\$ 24,102,272	\$ 27,650,366	\$ 28,418,442	\$ (768,076)
Excess of revenues over (under) expenditures			\$ 364,962	\$ 364,962

Explanation of differences:

Sources/inflows of resources:

Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 28,783,404
Differences - budget to GAAP:	
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.	(743,467)
Revenues included in the statement of revenues and not in the budgeted amounts	1,831,375
Total revenues as reported on the statement of revenue, expenditure, and changes in fund balances	\$ 29,871,312

Uses/outflow of resources

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 28,418,442
Differences - budget to GAAP:	
Non budgeted expenditures	808,265
Expenditures budgeted this year from prior year	(182,233)
Total expenditures as reported on the statement of revenue, expenditures and change in fund balances	\$ 29,044,474

See notes to budgetary comparison schedule.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

GENERAL ORGANIZATION

The **Municipality of Barceloneta** was founded in 1881. The governmental system of the Municipality is composed of the executive and legislative bodies. The Mayor is the Chief Executive Officer and is elected every four years in the general elections of Puerto Rico. The legislative body consists of fourteen assemblymen also elected in the general elections of Puerto Rico for a four-year period.

The **Municipality** provides services such as: health, public safety, sanitation, recreation and sports, education, housing, transportation, welfare, construction and/or improvements of highways and streets, and other general and administrative services.

The financial statements of the **Municipality of Barceloneta** have been prepared in conformity with generally accepted accounting principles (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the primary standard-setting body for establishing governmental accounting and financial reporting principles. The GASB periodically updates its existing Governmental Accounting and Financial Reporting Standards, which along with subsequent GASB Pronouncement (Statements and Interpretations,) constitute GAAP for governmental units. A summary of **the Municipality's** significant accounting policies consistently applied in the preparation of the accompanying basic financial statements follows:

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity

The Municipality's financial statements include the operations of all departments and separate legal entities for which **the Municipality** is financially accountable or for which exclusion would leave the financial statements misleading or incomplete.

In June 1999, the GASB issued Statement No. 34 *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*. This Statement establishes new financial reporting requirements for state and local governments. It requires new information and restructures much of the information that governments have reported in the past. Comparability with reports issued in prior years is affected. In June 2001, the GASB issued Statement No. 37 *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments Omnibus*, which in part addressed the Management Discussion and Analysis (MD&A) requirements, Program Revenue Classifications and Major Fund criteria requirements in the reporting model in Statement No. 34.

The Municipality of Barceloneta was required to implement this Standard for the fiscal year ended June 30, 2003.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

b. Financial Reporting Entity

The accompanying basic financial statements include all departments, agencies and municipal entities that: (1) are under the legal and administrative control of the Mayor, and (2) whose funds are under the legal custody and control of the **Municipality's** Director of Finance, as prescribed by Law No. 81 of August 30, 1991, as amended, known as the *Autonomous Municipalities Act of the Commonwealth of Puerto Rico*. **The Municipality's** management has considered all potential component units for which it may be financially accountable and other legally separate organizations for which the nature and significance of their relationship with **the Municipality** may be such that exclusion of their financial statements from those of the Municipality would cause **the Municipality's** basic financial statements to be misleading or incomplete according to GASB Statement No. 14, - *The Financial Reporting Entity (GASB No. 14)*.

The Municipality's management has concluded that, based on the aforementioned criteria, there are no legally separate entities or organizations that should be reported as component units of **the Municipality** as of June 30, 2005 nor for the year then ended.

c. Basic Financial Statements-GASB Statement No. 34 (continuation)

The basic financial statements include both government-wide and fund financial statements. While the previous model emphasized fund types (the total of all funds of a particular type), in the new reporting model the focus is on major individual funds (within the fund financial statements). Both the government-wide and fund financial statements categorize activities as governmental activities. In the government-wide Statement of Net Assets the governmental activities (a) are presented on a consolidated basis in one column, and (b) are reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

The government-wide Statement of Activities reflects both the gross and net cost per functional category. The Statement of Activities reduces gross expenses (including depreciation) by related operating grants and contributions. The operating grants include operating-specific grants.

This government-wide focus is more on the substantiality of **the Municipality** the change in aggregate economic position resulting from the activities of the fiscal period.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

The fund financial statements are, in substance, very similar to the financial statements presented in the previous model. Emphasis here is on the major funds in the governmental category. Non-major funds are aggregated into a single column.

The governmental funds financial statements are presented on a current financial resource measurement focus and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to (a) demonstrate legal and covenant compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how **the Municipality** actual experience conforms to the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statement, a reconciliation is presented on the fund statement, which briefly explains the adjustments necessary to transform the fund statements into the governmental wide statements.

d. **Basis of Presentation**

The new model as defined in Statement No. 34 establishes criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. **The Municipality** reports the following major funds on **Fund Financial Statements**:

Major Funds

General Fund – Always a major fund. The general fund is the main operating fund of **the Municipality**. It is used to account for all financial resources except those required to be accounted for in other funds.

HUD Programs Fund – This fund accounts for revenues sources for the development of viable urban communities, decent housing suitable living environment, rental assistance to help very low-income families afford decent, safe and sanitary housing by encouraging property owners to rehabilitate substandard housing and lease the units with rental subsidies to low income families.

Debt Service Fund – Debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

Basis of Accounting (Continuation)

Head Start – Program Funds – The special revenue fund of Head Start is a major fund used by **the Municipality** to account for revenues derived from the grant that is legally restricted by outside parties for use on specific purpose. The uses and limitations of this revenue fund are specified by municipal ordinances of federal and state statutes.

However, resources restricted to expenditure for purposes normally financed from the general fund are reported in **the Municipality's** general fund provided that all applicable legal requirements are appropriately satisfied. In this case, a special revenue fund to account for such kind of transactions will be used only if legally mandated.

Other Funds (not major funds) – Special revenue funds are used to account for the proceeds of specific revenues sources that are legally restricted to expenditures for specified purposes. Capital projects fund is used to account for the financial resources for the acquisition of personal property and/or construction of major improvements, which are not financed by other funds.

e. **Basis of Accounting**

The accounts of **the Municipality** are organized on the basis of funds, each of which is considered to be a separate accounting entity. **The Municipality** has created various types of funds. Each fund is accounted for by a separate set of self-balancing accounts, which include its assets, liabilities, fund balances, and revenues and expenditures/expenses, as applicable. The individual funds accounts for the governmental resources allocated to **the Municipality** for the purpose of carrying on specific activities in accordance with laws, regulations, or other restrictions.

Measurement Focus, Basis of Accounting

Government-wide Financial Statements – The government wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which **the Municipality** gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

Basis of Accounting (Continuation)

Governmental Funds Financial Statement – Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Available means collectible within the current period or 60 days after the end of the period to use them to pay liabilities of the current period. Miscellaneous revenues are recorded when collected. Revenues collected in advance of the fiscal year to which they apply are recorded as deferred revenues and recognized as revenues in the year to which they apply. Expenditures are generally recognized when the related fund liability is incurred. General capital asset acquisitions are reported as expenditures in governmental funds.

Governmental Fund Types / Governmental Activities – Governmental funds are those through which most governmental functions of **the Municipality** are financed. The acquisition, use, and balances of **the Municipality's** expendable financial resources and the related liabilities are accounted for through governmental funds. The measurement focus is upon determination of changes in financial position, rather than upon net income determination.

Licenses and permits, charges for services, fines and forfeits and miscellaneous revenues (except investment earnings) are recorded as revenues when received. Investment earnings (interest) are recorded as earned since they are measurable and available.

f. Encumbrances

Governmental funds employ encumbrances accounting. Under the encumbrance system, all purchase orders; contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation. Under generally accepted accounting principles, encumbrances outstanding at year-end are reported as reservations of fund balance and they constitute neither expenditures, nor liabilities. Encumbrances constitute the equivalent of expenditures for budgetary purposes only, and accordingly, are reported with expenditures in all budgetary basis statements.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

g. Budgetary Data

The Municipality follows these procedures, which are in accordance with the municipal law; in establishing the budgetary date reflected in the basic financial statements.

- (1) On or prior to may 15, the Mayor submits to the Municipal Assembly a proposed budget for the fiscal year commencing the following July 1st. The proposed budget includes estimated expenditures and their financing sources.
- (2) The budget document is available for public inspection prior to its approval by the Municipal Assembly.
- (3) Prior to July 1st., the annual budget is legally enacted through passage of the annual appropriation ordinance.
- (4) Subsequent to the enactment of the annual appropriation ordinance, the Municipal Assembly has the authority to make necessary adjustments to the budget.

The budget is prepared following the modified accrual basis of accounting except for the encumbrances as described below.

The actual results of operations, presented in the Statement of Revenues, Expenditures and changes in Fund Balances-Budget and Actual-General Fund, are reflected in conformity with the budgetary accounting of the Municipality for a better comparison with the budget information.

Amendments to the budget, and budgetary transfers related to personal expenditures, require the approval of the Municipal Assembly. Non-capital encumbrances lapse at the end of the next fiscal year. During the fiscal year, the Municipal readjusted its original budget of the General Fund Balance by \$3,548,094 from current year resources increase.

Since the budgetary basis differs from generally accepted accounting principles (GAAP), actual amounts for the general fund and debt service fund in the accompanying Statement of Revenues and Expenditures-Budget and Actual are presented on the budgetary basis to enhance comparability. The principal differences are as follows:

- (1) Encumbrances are recorded as expenditures under the budgetary basis and as reservations of fund balance under the GAAP basis.
- (2) The property tax advances are presented as revenue in the budgetary basis and as other financing sources in the GAAP basis.
- (3) The Municipality receives certain revenues as contributions from governmental entities, legislative and private parties, which are not included therein nor are the related expenditures.
- (4) Certain debt issuance to acquire personal property is reflected in the general fund and is restricted for that purpose.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

The Municipality has not legally adopted a budget for the Head Start special revenue and capital projects funds. Accordingly, it has not presented an annual comparison of budget and actual for these major funds.

h. Deposits

Substantially all cash balances are commingled in a general checking account and several special purpose bank accounts, except for cash and investments restricted by law. Each fund records its equity interest in the pooled cash balance. The available cash balance in the general checking account beyond immediate needs is invested in interest-bearing deposits. Generally, cash is deposited in interest-bearing bank accounts. Investment earnings are credited to the respective fund.

Investments consist of short-term certificates and are stated at cost, which approximates fair value.

i. Inventories

The general fund purchases office and printing supplies, gasoline, oil, medicines and other items. The cost of purchases is recorded as an expenditures and the inventory is not recorded in the basis financial statements since amount is insignificant.

j. Capital Assets

Fund Financial Statements

The capital assets acquired are recorded as expenditures at cost in the governmental funds.

Government Wide Financial Statement

Purchased capital assets are recorded at cost. Donated capital assets are recorded at their estimated fair value a time they are received by **the Municipality** and is capitalized in the Statement of net Assets. Major renewals and betterment are capitalized: replacement, maintenance and repairs, which do not improve or extend the life of the respective assets, are charged to operations.

Depreciation is provided over the estimated useful life of the respective assets on straight-line basis.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

k. Vacation and Sick Leave and Other Compensated Absences

Municipal employees are granted 30 days of vacation and 18 days of sick leave annually. Vacation may be accumulated up to a maximum of 60 days and sick leave up to a maximum of 90 days. In the event of employee resignation, the employee is paid for accumulated vacation days up to the maximum allowed. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years or more of service who are entitled to sick leave pay to the maximum allowed. The Municipality is required to pay excess sick leave over 90 days on or before March 31 of the accumulated excess at December 31 of prior year. Employees' maximum allowed accumulated vacation, with the employer's share of payroll taxes, are accounted in the Statement of Net Assets.

l. Insurance

The Municipality has insurance coverage for its public facilities and equipment, primarily to provide protection in case of disaster and other losses. Also, principal officials of **the Municipality** are covered under various surety bonds. The Secretary of the Department of the Treasury of the Commonwealth of Puerto Rico is the designated agency to obtain the necessary insurance coverage for **the Municipality**.

m. Restricted Assets

Investments and Certificates

Certain proceeds of as well as certain resources set aside for their repayment are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The "revenue bond" maintenance account is used to report those rental proceeds that are restricted for use in maintenance of the properties. The "revenue bond fund account" is used to segregate resources accumulated for debt service payments over the next twelve months. The "Debt Service Account" is used to report resources set aside to make up potential future deficiencies in the "revenue bond fund account".

Cash with fiscal agent

The cash with fiscal agent pertaining to the debt service represents property tax collections retained by the Government Development Bank for Puerto Rico and another financial institution restricted for the payment of **Municipality's** debt service (See Note 2) and unused proceeds from bonds and notes issued principally for the acquisition or construction of permanent improvements are accounted in the capital project fund.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

n. Reservations of Fund Balance

Reservations of fund balance represent portions of fund balances that are legally segregated for a specific future use or are not appropriable for expenditure. **The Municipality** has the following reservations of fund balance:

- *Encumbrances* – Represent future expenditures under purchase order, contracts and other commitments. These committed amounts generally will become liabilities in future periods as the goods or services are received.
- *Debt Service* – Represents net assets available to finance future debt service payments.
- *Capital Projects* – Represent net assets available to finance future capital outlays.
- *Special Revenue Fund* – Represent net assets available to finance specified outlays.
- *General Fund* – Represent net assets available not required to be accounted in another fund.
- *For other Purposes* – Represent mainly resources set aside for use in federal and state grant programs accounted for in the special revenue funds, and resources available in the general fund for the payment of certain accounts payable and commitments approved by GDB.

o. Claims and Judgment

The estimated amount of the liability for claims and judgments, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund and in the Statement of Net Assets.

p. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect the reported amounts of asses and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

q. Totals Column (Memorandum Only) Governmental Funds Statement

The total data under this column is presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Such data is not comparable to a consolidation, since Interfund eliminations have been made.

2. PROPERTY TAXES

The "Centro de Recaudación de Ingresos Municipales"(CRIM) is responsible for the assessment of all real and personal property located within the **Municipality of Barceloneta** and for the levy, administration and collection of the corresponding taxes.

The property tax is levied each year on the assessed value of the property at the beginning of the calendar year. Assessed values of real property are established at the estimated current value existing in the year 1957 and of personal property at the current value at the date of the assessment.

Real property taxes are billed by the CRIM and are due in two equal installments in July and January following the assessment date. Personal property taxes are self-assessed and are due in May 15, when the property tax return is required to be filed.

The tax rate per annum is 8.08% for real property and 6.08% for personal property of which 3.83% and 1.83%, respectively, belongs to the Commonwealth of Puerto Rico and 4.5% of both percents belong to **the Municipality**. From the portion belonging to **the Municipality**, 3% represents **the Municipality's** basic rate, which is appropriated for general purposes and, therefore, accounted for through the general fund. The remaining portion belonging to **the Municipality** of 1.3% represents the "ad-valorem" tax withheld by the CRIM as fiscal agent, and restricted for debt service, which is accounted for through the debt service fund (See note 2). **The Municipality** has reached the maximum statutory tax rate limit for the basic tax while there is no limitation for the ad-valorem tax rate.

Complete real property tax exoneration is granted by the Commonwealth of Puerto Rico on the first \$15,000 of the assessed valuation of owner occupied residential units. However, **the Municipality** receives the full amount levied, except for residential units assessed at less than \$3,500, on which a complete exemption is granted. Veterans have additional exemption from taxes of \$5,000 of the assessed value of real property. The Department of Treasury instead of the property taxpayer became the source of payment in these cases.

Complete exemption from personal taxes up to an assessment of \$50,000 is granted to retailers with an annual volume of net sales under \$150,000.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

The CRIM reports annually to the Municipality the estimated basic property tax and the tax to be used for the debt service, which will be collected in the fiscal year. The basic tax is advanced to **the Municipality** during such fiscal year. It is the practice to amortize these advances through the subsequent collection by the CRIM of the basic tax from the taxpayers.

The basic property tax advances from the CRIM are recorded in the general fund as other financing sources. As this tax is collected and reported by the CRIM, it is recorded in the general fund as revenue. The property tax received from the Department of Treasury, which is related to the exoneration granted by the Commonwealth of Puerto Rico is reflected as revenue in the general fund.

Since the collection of property taxes from the taxpayers is under the administration of the CRIM, the Municipality recognized as an expenditure the operational expenses allocated by the CRIM to the Municipality, which amounted to \$252,604 during 2005.

The following is a summary of the property tax advances, which resulted as an account receivable, for the year ended June 30, 2005 and outstanding debt from 2005. The resulting receivable is presented as deferred revenue in the general fund for Fund Financial Statement and as revenue in the Government Wide Financial Statements. The debt has been presented in the Statement of Net Assets as a non-current liability since payment is not anticipated to be paid in near future.

Accounts Payable:

Amortization through collections of property taxes by the CRIM	
07-01-04 – 06-30-05	\$ (6,153,945)
Advance received, 07-01-04 – 06-30-05	6,897,412
Due from CRIM – 2005	\$ (743,467)

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

3. DEPOSITS

Deposits include investments accounts amounting to \$8,583,585. **The Municipality's** cash and investments at June 30, 2005, were entirely covered by the Federal Depository Insurance Corporation by collateral provided by the banks and held by the Department of the Treasury pursuant to applicable laws and regulations. Cash with fiscal agent is maintained in interest-bearing accounts in the Government Development Bank for Puerto Rico and is collateralized by the Commonwealth of Puerto Rico.

Puerto Rico laws authorize governmental entities to invest in direct obligations or obligations guaranteed by the federal government or the Commonwealth of Puerto Rico. **The Municipality** is also allowed to invest in bank acceptances, other bank obligations and certificates of deposit in financial institutions authorized to do business under the federal and Commonwealth laws. During the year, **the Municipality** invested its funds in interest-bearing bank accounts, and short-term certificates of deposit if due date is not more than 90 days, the certificate considered as cash equivalents.

4. CONCENTRATION OF CREDIT RISK

The Municipality maintains its cash account in local commercial banks, whose accounts are warranty by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Deposits in excess of \$100,000 are collateralized by the bank securities to property safeguard such funds. Nevertheless, Management believes that concentration of credit risks is limited because balances are deposited with high standing financial institutions.

5. MUNICIPAL LICENSE TAXES

The volume of business tax is levied each year based on the prior year's gross revenues for all commercial and industrial organizations doing business in the Municipality and which are not totally or partially exempt from this under the industrial Incentives Acts of Puerto Rico. All taxpayers are required to file their declarations by April 15 of each year.

The tax rates are as follow:

- 1% for financial institutions
- for all other organizations 0.5%

Taxes are payable in two equal semiannual installments on July 1 and January 1 following the levy date. If they are paid before their maturity, the taxpayer is granted certain discounts.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

MUNICIPAL LICENSE TAXES (continuation)

The deferred revenue of the general fund correspond to the business tax levied received from the next fiscal year.

The minimum gross revenue to file the Volume of Business Tax Declaration is \$5,000 and the maximum tax payable is \$25. The date to file the Volume of Business Tax Declaration is April 15. The Municipality grants a 5% discount, if the taxes are paid on or before April 15. Otherwise, 50% of taxes payable must be paid within the first 15 days of each semester beginning with the first semester ending December 31.

The **Municipality** recognized an account receivable for the estimated municipal license taxes to be collected during the first two months of nex year, but corresponding to current year. Municipal license taxes collected prior to June 30, but pertaining to the next fiscal year are recorded as deferred revenues.

6. INTERFUND TRANSACTIONS

Due From/To Other Funds (Fund Financial Statement)

Interfund receivables and payables generally reflect temporary loans, billings for services provided and recovery of expenditures. The balance are as follows:

Funds	Due From	Due To
General	\$1,823,857	\$ -
Head Start Programs	-	690,274
Other Funds	-	1,098,247
HUD Programs	-	35,336
	\$1,823,857	\$1,823,857

The inter-fund receivables and payables on Fund Financial Statement are eliminated on Statement of Net Assets (Government Wide Financial Statement).

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

7. INTERGOVERNMENTAL REVENUES

Sources of intergovernmental revenue consist primarily of governmental payments from the Commonwealth of Puerto Rico and "in lieu of tax" payments from certain "quasipublic" corporations, such as the Puerto Rico Electric Power Authority.

Grants and subsidies received from the Commonwealth of Puerto Rico include, among others, a general subsidy for capital improvements. Almost all these intergovernmental revenues are accounted for in the general fund.

8. DUE FROM (DUE TO) GOVERNMENTAL ENTITIES

As of June 30, 2005 balances from (due to) governmental entities of the general fund consists of the following:

Name	Due to
Centro de Recaudación de Ingresos Municipales (CRIM)	\$ 743,467
Electric Puerto Rico Power Authority	161,353
Puerto Rico Water and Sewer Authority	12,602
Puerto Rico Retirement System	129,382
United States Treasury	1,733
Puerto Rico Telephone Co.	30,657
General Administration Services	15,994
Puerto Rico Department of Treasury	55,333
	\$ 1,150,521

Part of the balances of due from governmental agencies were recorded as deferred revenues - others as of June 30, 2005.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

9. CAPITAL ASSETS

Fund Financial Statements

The Municipality charged costs of capitalizable outlays as expenditures categories in the Governmental Fund Financial Statements.

	Balance 6/30/2004	Additions	Retirements and transfers dispositions	Balance 6/30/2005
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,356,315	\$ 3,838,664	\$ 3,838,664	\$ 1,356,315
Construction in progress	773,065	11,192,282	-	11,965,347
Total capital assets not being depreciated	2,129,380	15,030,946	3,838,664	\$ 13,321,662
Capital assets, being depreciated				
Buildings and building improvements	31,311,012	718,100	-	32,029,112
Infraestructure	14,841,420	-	-	14,841,420
Equipment	7,507,540	1,007,658	201,526	8,313,672
Total capital assets being depreciated	53,659,972	1,725,758	201,526	55,184,204
Less accumulated depreciation for:				
Buildings and building improvements	8,413,899	-	525,952	8,939,851
Infraestructure	8,801,463	-	97,242	8,898,705
Equipment	1,497,251	-	180,724	1,677,975
Vehicles	2,928,326	-	366,829	3,295,155
Total accumulated depreciation	21,640,939	-	1,170,747	22,811,686
Total capital assets being depreciated, net	32,019,033	1,725,758	1,372,273	32,372,518
Governmental activities capital assets, net	\$ 34,148,413	\$ 16,756,704	\$ 5,210,937	\$ 45,694,180

Depreciation expense was charged to function programs of the Municipality as follows:

Governmental activities:	
General government	\$142,078
Public safety	90,974
Public works	730,060
Culture and recreation	124,175
Health	83,460
Total depreciation expense governmental activities	\$1,170,747

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

CAPITAL ASSETS (continued)

Government Wide Financial Statements

Capital assets purchased are carried at historical costs. Contributed assets are recorded at fair value as of the date donated. Additions, Improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on capital assets is calculated using the straight-line method over the following estimated useful lives:

Vehicles, Heavy Equipment	5-25	\$300
Furniture and Fixture	5-10	\$300
Computer and Electronic Equipment	5	\$300
Buildings	50	\$ 1
Infrastructure	60	\$ 1
Improvements	20-40	\$ 1

In addition, the Municipality assigned a 10% residual value on most Capital Assets.

10. CHANGES IN GENERAL LONG-TERM DEBT

General in General Long – Term Debt

The principal long-term obligation of the Municipality is obligation bonds issue to finance permanent improvements and purchases of equipment. The Municipality's long-term debt retirements are appropriated and paid from resources accumulated in the debt service fund.

The following is a summary of bonds of the Municipality of Barceloneta for year ended June 30, 2005.

Description	Beginning Balance	Additions	Reductions	Ending Balance
General Obligations Bonds	\$27,991,653	\$ -0-	\$1,651,883	\$26,339,770

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

11. CHANGES IN GENERAL LONG-TERM DEBT (continued)

General Obligation Bonds:

Description	Original Amount	Interest Rate	Balance 06-30-05	Due Date	Due within One Year
Bonds Series 1984	\$ 263,000	5%	\$ 69,850	01-01-2009	\$ 16,000
Bonds Series 1992	520,000	6.63	115,000	07-01-2006	55,000
Bonds Series 1992	229,000	5.75%	142,000	01-01-2016	10,000
Bonds Series 1992	630,000	6.63	195,000	07-01-2007	60,000
Bonds Series 1992	257,000	5.75%	159,000	01-01-2016	11,000
Bonds Series 1992	600,000	5.75%	368,000	01-01-2016	25,000
Bonds Series 1993	277,000	5.75%	178,000	01-01-2016	12,000
Bonds Series 1998	1,380,000	5.00%	1,215,000	07-01-2007	30,000
Bonds Series 1998	485,000	5.00%	185,000	07-01-2007	55,000
Bonds Series 1999	1,710,000	5.00%	1,240,000	07-01-2013	100,000
Bonds Series 1996	400,000	5.00%	300,000	01-01-2016	15,000
Bonds Series 1998	105,000	4.5%	86,000	01-01-2023	3,000
Bonds Series 1998	3,180,000	5.0%	560,000	07/01/2007	270,000
SUB-TOTAL			4,812,850		662,000

Description	Original Amount	Interest Rate	Balance 06-30-05	Due Date	Due within One Year
** Bonds Series 1994	\$ 3,250,000	9.0%	1,973,012	07-01-2007	435,000
Bonds Series 1987	1,520,000	9.0%	170,000	07-07-2007	85,000
Bonds Series 1994	411,000	5.0%	280,000	01-01-2007	16,000
Bonds Series 1988	120,000	8.0%	13,500	07-07-2013	6,000
Sub-total			2,436,512		542,000

Special Loans from Lottery Funds:

Bonds Series 1988	\$ 380,000	8.0%	38,000	07-01-2007	19,000
Bonds Series 1988	\$ 620,000	8.0%	69,750	07-01-2007	31,000
Bonds Series 1989	\$ 530,000	8.0%	97,658	10-01-2008	27,895
Sub-total			205,408		77,895

Revenue obligations Bonds

Bonds Series 1997	\$ 5,875,000	5.320%	5,015,000	07-01-2021	150,000
Bonds Series 1995	660,000	6.70 / 7.70%	445,000	07-01-2013	35,000
Bonds Series 1993	883,000	5.25%	535,000	01-01-2016	36,000
Bonds Series 2005	5,020,000	4.50%	4,925,000	07-01-2028	105,000
Bonds Series 2005	5,500,000	1.33%	5,500,000	08-01-2013	200,000
Bonds Series 2003	3,250,000	5.00 – 6.50%	2,465,000	07-01-2013	200,000
Sub-total			18,885,000		726,000
TOTAL			\$26,339,770		2,007,895

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

The annual requirements to amortize all bonded debt outstanding as June 30, 2005 follows:

Year Ending	Principal	Interest	Total
2006	\$2,007,895	\$1,151,916	\$3,159,811
2007	2,151,895	1,075,672	3,227,567
2008	1,784,145	964,211	2,748,356
2009	1,697,974	892,718	2,590,692
2010	1,569,000	828,501	2,397,501
Subsequent years	17,128,862	5,534,330	22,663,192
	\$26,339,771	\$10,447,348	\$36,787,119

The Municipality is subjected to certain laws of the Commonwealth of Puerto Rico, which limit the amount of bond obligations that can be used to 10% of the assessed valuation of the property located at the **Municipality of Barceloneta**.

12. DEBT SERVICE FUND

The revenues of the debt service fund arise from the additional property tax and are recognized when collected and informed by the CRIM (See Note 2). The CRIM retains these collections for the payment of principal and interest of bonds and notes issued by the Municipality. Interest income is for the payment of interest or special obligations notes and property taxes are for the debt service requirements of the genera obligations bonds and notes.

The Government Development Bank pays principal and interest on these obligations for Puerto Rico from funds obtained from the Following:

Property taxes	\$ 1,728,000
General funds	511,555
Other fund	690,046
	\$ 2,929,601

Expenditures for the year 2004-2005 were as follows:

Principal	\$ 1,651,883
Interest	1,277,718
	\$ 2,929,601

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

13. RETIREMENT SYSTEM

Plan Description

Regular employees of the Municipality contribute to a cost sharing multiple-employer defined benefit retirement plan, administered by the Employee Retirement System of the Government of Puerto Rico and its instrumentalities (ERS). ERS covers all regular full time public employees working for the central government, public corporations and the municipalities of Puerto Rico. The system provides retirements pensions, death and disability benefits. Retirement benefits depend upon age at retirement and number of years of credited service. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Benefits vest after ten years of plan participation. The system was created under Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. ERS issues a publicly financial report that includes financial statements and required supplementary information of the Plan, which may be obtained from the ERS at G.P.O. Box 42005, San Juan Puerto Rico. 00940.

The annual retirement benefits for those regular full-time employees hired on or before March 31, 1990 or those attaining permanent status before that date (Old Plan) and for those hired or attaining permanent status on or after April 1, 1990 (New Plan) are as follows:

OLD PLAN

Eligibility

Pension Benefits

Age 55 and 30 years
Of service

75% of average highest compensation
during any years of credited service

Under 55 and 30 ears
Of service

65% of average highest compensation
during any 3 years of credit service

Participant in the System who retire prior to 30 years of credited service are entitled to an annual retirement benefit equal to 1.5% of the highest compensation in any 3 years of credited service for each year of service up to 20 years, and 2% for each year in excess of 20 years.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

RETIREMENT SYSTEM (Continuation)

NEW PLAN

Eligibility

Age 65 with 10 years
of service

Pension Benefits

1.5% of average compensation during
the final 5 years of credited services
multiplied by the numbers of years
credited service

For both plants, the employees are vested when attaining ten years of credited services. Disability and death are available with certain limitations and all annuities in pay status will be increased every three years by 3% subject to the approval by the Legislature of Puerto Rico.

Funding Policy

The Act 447, as amended, is the authority under which obligations to contribute to the Plan by the Plan members, employer and other contributing entities are established or may be amended. The required contributions made by **the Municipality** were based on percentages established by the Administrator of the System. Such percentages were not based on actuarial studies as required by generally accepted accounting principles. An actuarial computation of the annual contribution applicable to **the Municipality** has not been prepared. Accordingly, the amounts by which the actual contributions differ from the required actuarial contributions are not known. The Municipality's total payroll for the fiscal year 2005 amounted approximately \$14,656,234 respectively. Members' contributions are 5.775% for gross salaries up to \$6,600 plus 8.275% of the gross salary in excess of \$6,600 and the Municipality is required to contribute 9.275% of gross salary.

Actuarial Valuation

The actuarial determined present value of benefits accrued as of July 1, 2003 (latest date available) for the System as whole, determined through an actuarial valuation performed at such date, amounted to \$11.2 billion. The net assets available for benefits at such date were \$2.0 billion, resulting in an excess of accrued benefits over net assets available (actuarial deficiency) of \$9.2 billion. This information is not available by each participant government agencies or municipalities.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

RETIREMENT SYSTEM (Continuation)

Actuarial Valuation

Net assets of the system consist principally of investments in stocks and bonds and loans to participants. The projected unit credit actuarial cost method was used for the actuarial calculation. Significant assumptions were as follows:

a) Interest rate	8.5% a year
b) Salary increases	5.0% year
c) Mortality	GAM'83 Mortality Table set forward two years
d) Termination	Medium Turnover Table commensurate with anticipated experience.
e) Disability	65% of Third Railroad Retirement Table Rates.
f) Retirement age	Graded scale of retirement ages commensurate with anticipated experience.
g) Proportion of participants with spouses	80% of participants assumed to be married, with wives assumed to be four years younger than husbands.
h) Number of employees electing high contributions	15% of retiring employees assumed to pay retroactive contributions at retirement.
i) Cost-of-living adjustments	3% every third year

14. LONG TERM LIABILITIES

Compensated Absences

Account for vacation and sick leave absences to be financed with governmental funds.

The liability for compensated absences was recorded in the Government-wide financial statements. The balance consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method. In which sick leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

LONG TERM LIABILITIES (continuation)

Compensated Absences (continuation)

The changes in Compensated absences for the year ended June 30, 2004 are as follows:

Governmental activity	June 30, 2004	Net Increase	June 30, 2005	Due within One year
Compensated Absences	\$976,274	\$574,471	\$1,550,745	\$412,321

In addition, the liabilities for retirement obligations were recorded in the Government-Wide Financial Statements. The balance consists of unpaid, accumulated pension obligations.

15. LEASES

Operating Leases

The Municipality has several short-term operating lease agreements covering some of the Municipality's premises and equipment. Most of the agreements are renewed annually. Total rental charges for the year ended June 30, 2005, were approximately \$867,238 included in all funds.

16. CLAIMS AND CONTINGENCIES

Contingencies

As pr Act No. 72 of September 7, 1993, Act of the Health Insurance of PR Administration", (HIA) should negotiate with the municipalities a contribution from the operational budget for the medical services covered by the Health Care Reform. As of June 30, 2002 the amount billed by HIA to the Municipality amounted to \$894,641. The Municipality alleged that the HIA never discussed the amount to be contributed by the Municipality and is determined unilaterally. The Municipality's management decided to record the liability on the financial statements wide. The Municipality paid \$1,148,888 during the year to Health Insurance of PR Administration. .

On July 1, 1997, there was an amendment to Act No. 72 in which it was established that the balance due to HIA from October 1994 to June 30, 1997 would be earned on the additional lottery games.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

CLAIMS AND CONTINGENCIES (continuation)

Federal Programs

The Municipality participates in a number of federal financial assistance programs. Although the Municipality's grant programs have been audited in accordance with the provisions of the Single Audit Act of 1984, as amended, during the year ended June 30, 1996, these programs are still subject to financial and compliance audits and resolution of previously identified questioned costs. These grants are also subject to audit on behalf of the grantors to assure compliance with grant provisions. If expenditures are disallowed due to noncompliance with grant program requirements, **the Municipality** may be required to reimburse to the grantor agency. Accordingly, the Administrations compliance with applicable grant requirements will be established at some future date. Nevertheless, **the Municipality's** management expects the amount of expenditures, which may be disallowed by the granting agencies from such audits, to be immaterial.

Comptroller's Office Audits

The Municipality of Barceloneta, Puerto Rico, has been audited by the Comptroller's Office of the Commonwealth of Puerto Rico. The Comptroller's Office has not issued a final report related to the financial operations of the Municipality for the period of the single audit. These audit report do not cover any findings subsequently disclosed to Municipality operation by the Comptroller's Office.

17. PRIOR PERIOD ADJUSTMENTS

General Fund and Head Start Program

The general fund balance of prior period was adjusted by \$99,955 and \$12,144 respectively for debts from prior year.

MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

18. MUNICIPAL SOLID WASTE LANDFILL CLOSURE AND POST-CLOSURE COST:

The Municipality of Barceloneta discontinues the landfill operation on December 31, 1998 according to United States Environmental Protection Agency (EPA) by the Consent Decree (CERLA -00304). State and Federal laws and regulations require the Municipality to perform certain closure procedures and establish monitoring and maintenance function at the landfill for 30 years after closure. The Environmental Protection Agency (EPA) determines that the Municipality of Barceloneta with ten pharmaceuticals companies was responsible for the existence of contamination on the landfill. The Municipality and the other responsible parties signed to under take the obligations established in the consent decree with an estimated total cost of \$5,000,000. During this year the Municipality provides maintenance to the landfill super fund site with the employees of public work department. The U.S. Environmental protection Agency prepares the first review of the Barceloneta super fund site to assure that the remedial action implemented protect the place and comply with all federal and local regulations applicable.

19. SUBSEQUENT EVENTS:

The Municipality of Barceloneta, Puerto Rico was authorized by the Legislature of the Municipality by ordinance number five for the year 2005-2006 to made a Municipal General Obligations Bonds of \$10,940,000 to made capital outlays.

Said bonds shall be dated as of July 1, 2005, shall be issued as registered bonds without coupons in the denomination of \$5,000 and any multiple thereof, shall be numbered from 1 upwards, and shall be stated to mature on July 1 in the following years and principal amounts:

Year of Maturity	Principal Amount	Year of Maturity	Principal Amount
2006	\$210,000	2019	\$430,000
2007	225,000	2020	455,000
2008	240,000	2021	475,000
2009	250,000	2022	505,000
2010	265,000	2023	530,000
2011	280,000	2024	560,000
2012	295,000	2025	590,000
2013	310,000	2026	625,000
2014	330,000	2027	660,000
2015	345,000	2028	695,000
2016	365,000	2029	735,000
2017	385,000	2030	775,000
2018	405,000		\$10,940,000

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Mayor and Municipal Council
Municipality of Barceloneta, Puerto Rico

I have audited the financial statements of the Municipality of Barceloneta, Puerto Rico, as of and for the year ended June 30, 2005, and has issued a unqualified report thereon dated September 26, 2005. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtain reasonable assurance about whether the Municipality of Barceloneta financial statements are free of material misstatement, I performed tests of its compliance with certain provision of law, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Municipality of Barceloneta, Puerto Rico, internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the

internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

I noted no matters involving the internal control over financial reporting and its operation that I consider being material weaknesses. However, I noted other matters involving the internal control over financial reporting that I have reported to management of Municipality of Barceloneta, in a separate dated September 26, 2005.

This report is intended for the information of the Municipal Assembly, management and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by any one other than these specified parties.

San Juan, Puerto Rico
September 26, 2005

The stamp number
was affixed to the
original of this report

2108519

Juan A. Feliciano Charneco
CPA JUAN A. FELICIANO CHARNECO
License No. 1263
Expires December 1, 2007



JUANA FELICIANO CHARNECO
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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAYOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Mayor of the Municipality of Barceloneta
Barceloneta, Puerto Rico

Compliance

I have audited the compliance of the Municipality of Barceloneta, Puerto Rico, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. The Municipality of Barceloneta major federal programs is identified in the summary of auditor's result section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Municipality of Barceloneta Management. My responsibility is to express an opinion on Municipality of Barceloneta compliance based on my audit.

I conducted my audit in accordance with generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States and Local Governments and Non-Profit Organizations. Those standards and OMB Circular A-133 require that I require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Municipality of Barceloneta, compliance with those requirements and performing such other procedures, as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on Municipality of Barceloneta compliance with those requirements.

In my opinion, Municipality of Barceloneta, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005. However, the results of my auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2005-1, 2005-2, 2005-3, 2005-4, 2005-5 and 2005-06.

Internal Control Over Compliance

The management of the Municipality of Barceloneta, Puerto Rico, is responsible for establishing and maintaining internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered Municipality of Barceloneta internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider being material weaknesses.

This report is intended for the information of the Municipal Assembly, management and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

San Juan, Puerto Rico
September 26, 2005

The stamp number
was affixed to the
original of this report

2108520

Juan A. Feliciano Charneco
CPA JUAN A. FELICIANO CHARNECO
License No. 1263
Expires December 1, 2007



MUNICIPALITY OF BARCELONETA, PUERTO RICO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Federal Grantor / Pass-through Grantor Program Title	Federal CFDA Number	Pass-through Grantors Number	Federal Expenditures
U.S. Of Housing and Urban Development Passed-through the office of the Commissioner of Municipal Affairs			
Community Planning and Development			
Community Development Block Grant (State Program)	14-228	2004	\$ 622,950
SBGP - 2003	14-228	2003	471,848
SBGP - 2002	14-228	2002	359,548
SBGP - 2001	14-228	2001	163,261
			<u>1,617,607</u>
Section 108 loan guarantee	14-228		2,548,098
Direct Program:			
Public and Indian Housing			
Section 8- Voucher	14-871	RQ-46-V-054-002/004	699,831
U.S. Department of Health and Human Services:			
Administration for children and families			
Passed-through Governors Office for Human Development:			
Head Start	93-600	02-CH-0483	3,627,035
Early Head Start	93-600	02-CH-9892-03	968,748
Child Care	93-575	CHC-0421	85,283
Early Child Care Program	84-024		1,265,379
			<u>5,946,445</u>
Administration on Aging			
Special Program for the Aging (SENDEC)	93-044	Title III	116,639
U.S. Department of Agriculture:			
Passed-through Department of Education			
Child Care Food Program	10-558		3,300
Early Child Food Program	10-558		40,726
			<u>44,026</u>
U.S. Department of Transportation			
Passed-through Federal Transportation Administration			
Federal Transportation Act.	20-506	PR-18-X017	37,704
U.S. Department of Justice			
Office of Community Oriented Policing Service Troops to Cops	16-711		67,199
U.S. Federal Emergency Management Agency			
Passed-through Emergency Management State and Local Assistance			
Federal 1552 (Tormenta Jeanne)	16-711		
	83-534		245,399
Total Federal Assistance			<u>\$ 11,322,948</u>

See notes to the schedule of expenditures of federal awards.

**MUNICIPALITY OF BARCELONETA, PUERTO RICO
NOTES TO THE SCHEDULE
OF EXPENDITURES OF FEDERAL FINANCIAL AWARDS
FOR THE FISCAL YEAR THEN ENDED JUNE 30, 2005**

(1) GENERAL

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Municipality of Barceloneta, Puerto Rico and is presented on the modified accrual basis of accounting. The reporting entity is defined in Note 1 to the financial statements of the Municipality. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

(2) MAJOR FEDERAL AWARDS

The Community Development Block grants, Housing Assistance Payments Programs, Health and Human Services Programs and Federal Emergency Management Agency represents the major federal financial awards of the Municipality. Major federal awards represent 91% of total expenditures.

(3) FEDERAL CFDA NUMBER

The CFDA numbers included in this schedule were determined based on the program name review of grant contract information and the office of management and budget catalog of Federal Domestic Assistance.

(4) RELATIONSHIP TO GENERAL PURPOSE FINANCIAL STATEMENTS

Federal financial assistance expenditures are reported in the Municipality of Barceloneta, Puerto Rico Combined Statement of Revenues, Expenditures and Change in Fund Balances - All Governmental and Types as follow:

<u>Description</u>	<u>HUD Programs</u>	<u>Head Start Programs</u>	<u>Other funds</u>	<u>Total</u>
Federal Programs Expenditures	\$ 2,317,438	\$ 5,990,471	\$ 3,015,039	\$ 11,322,948
State & Municipal Expenditures	-	-	1,259,008	1,259,008
Total Expenditures	\$ 2,317,438	\$ 5,990,471	\$ 4,274,047	\$ 12,581,956

**MUNICIPALITY OF BARCELONETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005**

A. Summary of Audit results

Financial Statements

Type of auditor's issued:

Unqualified

Internal control over financial reporting:

Material weakness (es) identified?

___ Yes __X__ No

Reportable condition(s) identified not considered
to be material weaknesses?
reported

___ Yes __X__ No None

Noncompliance material to financial statements noted?

___ Yes __X__ No

Federal Awards

Internal control over mayor programs:

Material weakness(es) identified?

___ Yes __X__ No

Reportable condition(s) identified not

Considered being material weaknesses?

___ Yes __X__ No

Type of auditor's report issued on compliance considered
For mayor programs

Unqualified

Any audit findings disclosed that are required to be
Reported in accordance with Circular A-133,
Section .510(a) are reported on part C, of this schedule

__X__ Yes _____ No

Identification of Major Programs

CFDA Number(s)	Name of Federal Program or Cluster
14,871	Section 8 – Voucher
93-600, 93-575, 84-024	Head Start, Early Child Care, Early Head Start and Child Care
14-228	SBGP
14-248	Section 108 – Loan Guarantees

Dollar threshold used to distinguish
Between type A and type B Programs

500,000

Auditee qualified as low-risk audit

Yes No

B - Financial Statements Findings

No matters were reported regarding reportable conditions, material weaknesses, and instances of non-compliance related to the financial statements that are required to be reported in accordance with paragraph 5.18 through 5.20 of Governmental Auditing Standards.

C – Federal Award Findings and Questioned Cost

Federal Program Information

**U.S. Department of Health and Human Services
Head Start
Passed-through Office of Children and Families Administration
CFDA No. 93-600
Grant No. 02-CH-0483/03
Year ended June 30, 2005**

Ref. No. Finding / Noncompliance

2005-01 Statement of Condition and Criteria

It was noted in my test of compliance that the Municipality is not complying with the criteria established by United States Treasury, Cash Management Requirements. The Municipality's financial management system.

To established procedures to minimize the time elapsing between the transfer of funds from the Office of the Administration for Children and Families and the disbursements by the Municipality. It was noted during my audit that Municipality held cash balances over \$5,000 for periods longer than 3 days.

MUNICIPALITY OF BARCELONETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005
(continued)

Cause

The Municipality does not comply with the Cash Management Requirements of the Department of Treasury of the United States.

Effect

The Municipality does not maintained adequate procedures for the Administration of cash that determine properly their use needed.

Auditor's Recommendation

The Municipality establishes adequate procedures in order to control in a more effective manner the need of the federal funds used.

Municipality Response:

We concur with auditor's recommendations. The Municipality evaluates the actual administrative procedures followed to establish a procedure to minimize the time between the funds received and the disbursements.

MUNICIPALITY OF BARCELONETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005
(continued)

U.S. Department of Agriculture
Child Care Food Program
Passed-through Department of Education
CFDA No. 10-558
Grant No. None identified
Year ended June 30, 2005

Ref. No.	Finding / Noncompliance
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2005-02	<u>Statement of Condition and Criteria</u>

It was noted in my test of compliance is note complying with the criteria established by United States Treasury, Cash Management Requirements. The Municipality's financial management system.

To established procedures to minimize the time elapsing between the transfer of funds from the Office of the Department of Education and the disbursements by the Municipality. It was noted during my audit that Municipality held cash balances over \$5,000 for periods longer than 3 days.

Cause

The Municipality does not comply with the Cash Management Requirements of the Department of Treasury of the United States.

Effect

The Municipality does not maintained adequate procedures for the Administration of cash that determine properly their use needed.

Auditor's Recommendation

The Municipality establishes adequate procedures in order to control in a more effective manner the need of the federal funds used.

Municipality Response:

We concur with auditor's recommendations. The Municipality evaluates the actual administrative procedures followed to establish a procedure to minimize the time between the funds received and the disbursements.

MUNICIPALITY OF BARCELONETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005
(continued)

U.S. Department of Health and Human Services
Administration for Children and Families
Early Child Care Program
Governors Office for Human Development
CFDA No. 84-024
Grant No. None identified
Year ended June 30, 2005

Ref. No. Finding / Noncompliance

2005-03 Statement of Condition and Criteria

It was noted in my test of compliance that the Municipality is not complying with the criteria established by United States Treasury, Cash Management Requirements. The Municipality's financial management system.

To established procedures to minimize the time elapsing between the transfer of funds from the Office of the Department of Education and the disbursements by the Municipality. It was noted during my audit that Municipality held cash balances over \$5,000 for periods longer than 3 days.

Cause

The Municipality does not comply with the Cash Management Requirements of the Department of Treasury of the United States.

Effect

The Municipality does not maintained adequate procedures for the Administration of cash that determine properly their use needed.

Auditor's Recommendation

The Municipality establishes adequate procedures in order to control in a more effective manner the need of the federal funds used.

Municipality Response:

We concur with auditor's recommendations. The Municipality evaluates the actual administrative procedures followed to establish a procedure to minimize the time between the funds received and the disbursements.

**MUNICIPALITY OF BARCELONETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005
(continued)**

**U.S. Department of Agriculture
Early Child Care Food Program
Passed-through Department of Education
CFDA No. 10-558
Grant No. None identified
Year ended June 30, 2005**

Ref. No.	Finding / Noncompliance
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2005-04	<u>Statement of Condition and Criteria</u>

It was noted in my test of compliance that the Municipality is not complying with the criteria established by United States Treasury, Cash Management Requirements. The Municipality's financial management system.

To established procedures to minimize the time elapsing between the transfer of funds from the Office of the Department of Education and the disbursements by the Municipality. It was noted during my audit that Municipality held cash balances over \$5,000 for periods longer than 3 days.

Cause

The Municipality does not comply with the Cash Management Requirements of the Department of Treasury of the United States.

Effect

The Municipality does not maintained adequate procedures for the Administration of cash that determine properly their use needed.

Auditor's Recommendation

The Municipality establishes adequate procedures in order to control in a more effective manner the need of the federal funds used.

Municipality Response:

We concur with auditor's recommendations. The Municipality evaluates the actual administrative procedures followed to establish a procedure to minimize the time between the funds received and the disbursements.

MUNICIPALITY OF BARCELONETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005
(continued)

U.S. Department of Health and Human Services
Administration for Children and families
Child Care
Passed-through Governors Office for Human Development
CFDA No. 93-575
Grant No. None identified
Year ended June 30, 2005

Ref. No. Finding / Noncompliance

2005-05 Statement of Condition and Criteria

It was noted in my test of compliance that the Municipality is not complying with the criteria established by United States Treasury, Cash Management Requirements. The Municipality's financial management system.

To established procedures to minimize the time elapsing between the transfer of funds from the Office of the Department of Education and the disbursements by the Municipality. It was noted during my audit that Municipality held cash balances over \$5,000 for periods longer than 3 days.

Cause

The Municipality does not comply with the Cash Management Requirements of the Department of Treasury of the United States.

Effect

The Municipality does not maintained adequate procedures for the Administration of cash that determine properly their use needed.

Auditor's Recommendation

The Municipality establishes adequate procedures in order to control in a more effective manner the need of the federal funds used.

Municipality Response:

We concur with auditor's recommendations. The Municipality evaluates the actual administrative procedures followed to establish a procedure to minimize the time between the funds received and the disbursements.

MUNICIPALTY OF BARCELONETA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005
(continued)

U.S. Department of Health and Human Services
Administration for Children and Families
Passed-through Governors Office for Human Development
Early Head Start
CFDA No. 93-600
Grant No. 02-CH-9892-03
Year ended June 30, 2005

Ref. No. Finding / Noncompliance

2005-06 Statement of Condition and Criteria

It was noted in my test of compliance that the Municipality is not complying with the criteria established by United States Treasury, Cash Management Requirements. The Municipality's financial management system.

To established procedures to minimize the time elapsing between the transfer of funds from the Office of the Department of Education and the disbursements by the Municipality. It was noted during my audit that Municipality held cash balances over \$5,000 for periods longer than 3 days.

Cause

The Municipality does not comply with the Cash Management Requirements of the Department of Treasury of the United States.

Effect

The Municipality does not maintained adequate procedures for the Administration of cash that determine properly their use needed.

Auditor's Recommendation

The Municipality establishes adequate procedures in order to control in a more effective manner the need of the federal funds used.

Municipality Response:

We concur with auditor's recommendations. The Municipality evaluates the actual administrative procedures followed to establish a procedure to minimize the time between the funds received and the disbursements.

MUNICIPALITY OF BARCELONETA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2005

2005 – Finding No. 1: Early Head Start
CFDA No. 93-600
Year ended June 30, 2005

2005 – Finding No. 2: Child Care Food Program
CFDA No. 10-558
Year ended June 30, 2005

Condition

It was noted in my test of compliance that the Municipality is not complying with the criteria established by United States Treasury, Cash Management Requirements. The Municipality's financial management system.

To established procedures to minimize the time elapsing between the transfer of funds from the office of Administration for Children and Families and the disbursements by the Municipality. It was noted during my audit that Municipality held cash balances over \$5,000 for periods longer than 3 days.

Recommendation

The Municipality establishes adequate procedures in order to control in a more effective manner the need of the federal funds used.

Current Status

The mayor gave instructions to establish adequate procedures to comply with the requirement.

Findings reported again.

**CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2005
(CONTINUE)**

Ref. No.	<u>Finding /Corrective Action</u> <u>Planned/Person Responsible:</u>	<u>Anticipated</u> <u>Completion Date</u>
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2005-01

Statement of Condition:

The Head Start Program, cash balance over \$5,000 for periods
End longer than 3 days.

On or before
end of 2005-06
fiscal year

Corrective Action Planned:

The Municipality to control established adequate procedures
the use federal funds in effective manner.

Person Responsible:

Noel Gutiérrez, Finance Director

Ref. No.	<u>Finding /Corrective Action</u> <u>Planned/Person Responsible:</u>	<u>Anticipated</u> <u>Completion Date</u>
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2005-02

Statement of Condition:

The Child Care Food Program Cash balance over \$5,000
For periods longer than 3 days.

On or before
end of 2005-06
fiscal year

Corrective Action Planned:

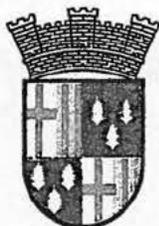
The Municipality to control established adequate procedures
the use federal funds in effective manner.

Person Responsible:

Noel Gutiérrez, Finance Director

**CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2005
(CONTINUE)**

Ref. No.	<u>Finding /Corrective Action Planned/Person Responsible:</u>	<u>Anticipated Completion Date</u>
2005-03	<p><u>Statement of Condition:</u> The Early Head Start Program, cash balance over \$5,000 for periods End longer than 3 days.</p> <p><u>Corrective Action Planned:</u> The Municipality to control established adequate procedures the use federal funds in effective manner.</p> <p><u>Person Responsible:</u> Noel Gutiérrez, Finance Director</p>	<p>On or before end of 2005-06 fiscal year</p>
2005-04	<p><u>Statement of Condition:</u> The Early Child Care Food Program Cash balance over \$5,000 For periods longer than 3 days.</p> <p><u>Corrective Action Planned:</u> The Municipality to control established adequate procedures the use federal funds in effective manner.</p> <p><u>Person Responsible:</u> Noel Gutiérrez, Finance Director</p>	<p>Anticipated <u>Completion Date</u></p> <p>On or before end of 2005-06 fiscal year</p>



Gobierno Municipal

BARCELONETA, PUERTO RICO

Departamento de Finanzas

OFICIO DEL COMISIONADO
MUNICIPAL DE BARCELONETA

06 JAN 13 AM 8:14

RECIBIDO
UNIDAD DE CORREO

CORRECTIVE ACTION PLAN YEAR ENDED JUNE 30, 2005 (CONTINUE)

Ref. No.	<u>Finding /Corrective Action</u> <u>Planned/Person Responsible:</u>	<u>Anticipated</u> <u>Completion Date</u>
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Statement of Condition:

The Child Care Program, cash balance over \$5,000 for periods
End longer than 3 days.

On or before
end of 2005-06
fiscal year

Corrective Action Planned:

The Municipality to control established adequate procedures
the use federal funds in effective manner.

Person Responsible:

Noel Gutiérrez, Finance Director

Ref. No.	<u>Finding /Corrective Action</u> <u>Planned/Person Responsible:</u>	<u>Anticipated</u> <u>Completion Date</u>
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Statement of Condition:

The Early Head Start Cash balance over \$5,000
For periods longer than 3 days.

On or before
end of 2005-06
fiscal year

Corrective Action Planned:

The Municipality to control established adequate procedures
the use federal funds in effective manner.

Person Responsible:

Noel Gutiérrez, Finance Director